B5350-24

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 18, 1984 VOLUME XXI, NUMBER 24

Strained Farm Finances

Although the Department of Agriculture now expects farm incomes—which include depreciation and inventories—to expand by more than 50 percent this year, net cash incomes, which are a more immediate measure of farmers' well-being, are not likely to rise much, if at all. This is because an increase in both the price and quantity of production inputs will substantially boost farmers' outlays compared with 1983. Owing to increasing demand because of stepped-up planting this year, prices which farmers pay for their production items are expected to post relatively sharp increases this year. Seed prices jumped by 8.5 percent in May, year-over-year. Fertilizer prices rose 6.5 percent after falling five percent last year and remaining unchanged in 1982. Feed costs advanced by 6.7 percent, and financing costs which dipped last year, have recently resumed their upward climb.

And while the government expects farmers to increase purchases of production items by about ten percent this year to about $120 billion, farm machinery dealers are already scaling down their expectations for this year's sales. Earlier they had thought that farmers, newly flush with cash from the sales of PIK grains, would be crowding their showrooms, buying new equipment in anticipation of putting most of the fallow acreage back into production. Instead, farmers appear to be paying off old debts rather than acquiring new, often purchasing used equipment when possible.

Total tractor sales for the first four months of this year were up only 8.5 percent from last year's depressed levels. The largest gains were seen in smaller models—under 40 horsepower—which are generally produced outside the United States, although often by U.S. firms. In the same period, tractors over 100 horsepower rose only one percent. Sales of combines continued their plunge in the first four months of the year, falling 35 percent from a year ago. But even the uptick in sales of tractors should provide some relief for manufacturers who have seen their market plummet by more than 50 percent since 1979. The industry is currently operating below 50 percent of capacity, with inventories swollen to a 12-month supply—more than double their normal level.

Depressed Land Values

An important factor inhibiting large equipment purchases is that farmers are still pinched by large debt burdens, acquired at lofty interest rates, as a result of overambitious borrowing in the late 1970s. The Farm Credit Administration reports that borrower bankruptcies and loan liquidations under its programs have increased in 1984 compared with the same period a year ago. Nearly 1.4 percent of Federal Land Bank loans outstanding were under liquidation in the first quarter of 1984 compared with an average of 0.8 percent in 1983's first quarter. Similarly, about 2.7 percent of short- and intermediate-term loans extended by Production Credit Associations were delinquent in the first quarter, up from 2.2 percent a year ago.

What is more, one of the farmers' biggest assets—real estate—continues to depreciate. Reduced farm profitability in general and increased farm bankruptcies in particular have added to the land available for sale, while high interest rates have cut buyer demand. The average value of an acre of U.S. farmland, including buildings, fell this year for the third year in a row. This is the longest sustained decline since 1933.

Iowa, the worst case, saw its land values plummet by nearly 30 percent in the past three years, with Ohio close behind. Indiana, Nebraska and Illinois all posted declines of between 20 and 25 percent. On the other hand, 20 of the 48 contiguous states saw their farmland values rise in the past three years. Texas posted a 31 percent appreciation, with California and all of the New England States—Maine, Rhode Island, Connecticut, Massachusetts, New Hampshire and Vermont—posting increases exceeding ten percent.

Lower Exports

The prospects for agricultural exports are not encouraging to farmers either. While the outlook for economic growth of most of the major importers

Copyright 1984
Manufacturers Hanover Trust Company
270 Park Avenue, New York, N.Y. 10017

of U.S. agricultural products is favorable, large crop supplies outside the United States and strong competition from foreign exporters, in addition to the high value of the dollar, will continue to limit exports. According to the Department of Agriculture, export volume is estimated to fall by two percent in fiscal 1984 compared with the previous year.

Importantly, U.S. soybean exports are expected to decline 16 percent, year-over-year, paced by sharply reduced demand from Canada, Japan and Western Europe. Wheat and flour exports should remain relatively unchanged, with coarse grain shipments up only about two percent. On the other hand, U.S. exports of cotton may rise more than 30 percent. Production problems in such traditional competitor countries as Pakistan and the U.S.S.R. have opened up opportunities for U.S. cotton producers.

Higher Food Prices

Meanwhile, higher farm products' prices are helping farmers to regain some of their financial strength. Food prices at grocery stores registered a 3.3 percent advance in the six months ending in April, surpassed only by the ever-increasing cost of medical care. And while this runup may be temporarily over, since it primarily reflected the effects of this winter's

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	6/13/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	163.269	+ .837	+13.455
Loans to Depository Inst.	2.508	– .623	+ .697
Float	.470	– .111	– 1.016
Total Reserve Bank Credit	174.525	+ .224	+13.176
Treasury Deposits with Federal Reserve Banks	3.311	– 1.393	+ .180
Currency in Circulation	174.408	+ .675	+13.445
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.446	+ 1.670	+ 5.301
	6/6/84		
Member Bank Reserves:			
Total Reserves Held	35.550	– .262	+ 1.874
Excess (Deficiency)	.489	– .129	– .135
Net Borrowed Reserves	2.386	– .522	+ 2.663

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (6/4/84)	545.2	+ 7.4	+ 6.9
M2 (May '84)	2,259.4	+ 6.6	+ 7.5
M3 (May '84)	2,814.8	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 6/15/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.25%	11.08%	11.86%
* Federal Agencies	10.73	11.20	12.04
* Project Notes–Taxfree (46% Taxable Equivalent)	10.00	10.56	11.67
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market–Prime	11.10	11.80	12.85

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	10.70%	Jul.	10.80%
15- 29 days	10.75	Aug.	10.80
30- 59 days	10.65	Sep.	10.83
60- 89 days	10.50	Oct.	11.05
90-179 days	10.30	Nov.	11.28
180-239 days	10.25	Dec.	11.20
240-270 days	10.25		

‡Industrial Paper–Prime			
30- 89 days	10.80%	†Federal Funds Effective Rate	11.30%
90-120 days	10.90		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84	6.0%	2.4%	8.4%
Change in Producer Prices*	May '84n	0.0%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	May '84	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force†	May '84	7.5%	7.8%	10.1%
Personal Income*	Apr '84	$ 2,957	$ 2,942	$ 2,689
Leading Indicators Composite Index (1967=100)†	Apr '84	167.8	166.9	152.5
Industrial Production Index (1967=100) †	May '84n	163.2	162.5r	144.4
Net Change in Consumer Installment Credit †	Apr '84n	$ 6.41	$ 5.87	$ 2.04
U.S. Merchandise Trade Balance †	Apr '84	–$ 12.19	–$ 10.26	–$ 4.73
Plant and Equipment Expenditures* ‡	3rd Q'84n	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Apr '84	1,963	1,645	1,549
New Construction Expenditures*	Apr '84	$ 302.5	$ 302.0	$ 247.4
Total Business Inventories †	Apr '84n	$ 540.9	$ 532.8r	$ 500.3
Total Business Sales †	Apr '84n	$ 404.6	$ 401.9r	$ 351.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
‡Series has been redefined.

unusually severe weather—which exerted upward pressure mostly on fruit and vegetable prices—it would appear that they are poised for another jump, this time to be led by increasing meat prices. Since food represents nearly one-fifth of consumer spending, these price hikes will undoubtedly dent household budgets.

Several agricultural commodities' prices have soared at the farm gate since last year, primarily due to 1983's government-sponsored acreage reduction program. Although on average, prices that farmers received for their products in May were only five percent above year-ago levels, prices of oilbearing crops, which include soybeans, jumped nearly 40 percent, while cotton prices increased 17 percent. Feed grain prices advanced more than ten percent, pushed up by higher corn prices. However, most livestock producers have not been able to successfully pass these price increases on. Unfavorable profit margins caused mostly by expensive feed have forced ranchers to send more animals to slaughter, which has swelled supplies in the marketplace and so far restrained red meat prices. Cattle prices fell by more than three percent in May, year-over-year, while hog prices rose only four percent, reflecting a sharp drop in inventories, possibly as high as ten percent year-over-year. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/30/84)	152,884	+ 1,940	+ 7,652
New York City (6/6/84)	33,266	+ 598	+ 309
Commercial Paper (6/6/84)	213,509	– 1,209	+42,594

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/30/84)	239,856	– 735	+23,436
New York City (6/6/84)	64,118	+ 958	+ 7,030

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/30/84)	607,593	+ 2,143	+82,642
New York City (6/6/84)	138,348	– 1,163	+21,148

Financial Markets

	Friday 6/15/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.25%	–0–	+ 1.15
180-Day Bills†	11.05	– .20	+ 1.65
Longest Bills†	11.85	– .15	+ 2.20
Recent Issues:			
12⅝s 5/31/86	12.60	– .15	
12s 3/31/88	13.00	– .20	
13⅛s 5/15/94	13.20	– .25	
13¼s 5/15/14	13.15	– .27	
Municipals:			
Bond Buyer–20 Bond Index* (6/14/84)	10.59%	– .19	+ 1.21
Blue List Total ($ Million)	$1,082	– $54	+ $ 80
30-Day Visible Supply ($ Million)	$1,996	– $25	+ $712
Total	$3,078	– $79	+ $792
Corporates:			
Moody's Aa Composite (6/14/84)	14.26%	– .08	+ 2.18
30-Day Visible Supply ($ Million)	$ 290	+ $30	– $385
Stocks:			
Dow-Jones Averages:			
Industrials	1,086.90	– 44.35	– 155.29
Transportation	458.02	– 19.65	– 123.10
Utilities	122.30	– 2.07	– 6.76
65 Stocks	423.90	– 15.92	– 69.09
Standard and Poor's 500 Stocks	149.03	– 6.14	– 20.10
N.Y.S.E. Composite Index	86.17	– 3.16	– 11.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	77,372	– 5,624	– 22,760

* 46% Taxable equivalent 19.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/15/84	Week Ago
Overnight	11.25%	10.44%
1 month	11.31	11.00
3 month	11.44	11.44
6 month	12.19	12.19
1 year	13.13	13.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.30%	13.40%
Long Term (7 to 15 yrs.)	13.60	13.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/15/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01797	55.65
Canada	.7693	1.2998
Denmark	.1002	9.9825
France	.1190	8.4025
Germany	.3658	2.7340
Italy	.0005896	1696.00
Japan	.004296	232.75
Mexico	.005222	191.50
Netherlands	.3248	3.0785
Switzerland	.4391	2.2775
U.K.	1.3800	.7246

Quality. Loyalty. Consistency.

Some things shouldn't change. And these three words express the abiding philosophy which sets Manufacturers Hanover apart from other global financial institutions. At Manufacturers Hanover a lot of good people make this philosophy live. They put quality into the services we offer, make loyalty to our customers paramount, and give consistency to our approach and performance. If you value character as well as size and scope, consider Manufacturers Hanover. The Financial Source—worldwide.

MANUFACTURERS HANOVER

The Manufacturers Hanover **Financial Digest**

Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00208000006990 C 39 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014